

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 6, 2005

IN RE:

PETITION OF TELCOVE, INC., TELCOVE OPERATIONS,
INC., TELCOVE OF TENNESSEE, INC., TELCOVE OF
NASHVILLE FOR APPROVAL TO INCREASE THE AMOUNT
OF AN EXISTING SECURED REVOLVING CREDIT
FACILITY AND TO ISSUE NEW DEBT

DOCKET NO.
05-00125

ORDER APPROVING FINANCING TRANSACTIONS

This matter came before Director Deborah Taylor Tate, Director Sara Kyle and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this Docket, at the regularly scheduled Authority Conference held on June 27, 2005 to consider the *Petition for Approval to Increase the Amount of an Existing Secured Revolving Credit Facility and to Issue New Debt* ("Petition") filed by TelCove, Inc., TelCove Operations, Inc., TelCove of Tennessee, Inc. and TelCove of Nashville, L.P. (together "TelCove" or the "Petitioners") on May 3, 2005.

The Petition

On June 21, 2004, the Authority granted TelCove's *Petition for Approval to Issue Debt* and approved a secured revolving credit facility ("Credit Facility") in an amount not to exceed 45 million dollars in TRA Docket No. 04-00168.¹ On February 28, 2005 in TRA Docket No. 05-00041, the Authority approved TelCove's request to increase the previously approved 45 million dollars by 15 million dollars for a total credit amount of 60 million dollars.² The amended Credit Facility also

¹ See *In re Petition of Adelphia Business Solutions, Inc., Adelphia Business Solutions Investment, LLC, Adelphia Business Solutions Atlantic, Inc. and Adelphia Business Solutions Operation, Inc. (All d/b/a TelCove) for Approval to Issue Debt*, Docket No. 04-00168, *Order Approving Financing Transactions* (July 12, 2004)

² See *In re Petition of Adelphia Business Solutions, Inc., et al d/b/a TelCove for Approval to Amend Financing Transactions*, Docket No. 05-00041, *Order Approving Amendment to Financing Transactions* (March 9, 2005)

included an option to increase the maximum amount of the Credit Facility to seventy-five million dollars, a net increase of 15 million dollars.

In the *Petition* currently before the Authority, TelCove requests approval for the additional 15 million dollars available through the Credit Facility. According to the *Petition*, other than this increase, all other substantive terms and conditions of the Credit Facility will remain unchanged. Therefore, the Petitioners state the Credit Facility will continue to be secured with assets of TelCove including assets in Tennessee.

According to the *Petition*, the net proceeds from the borrowing will be used to acquire additional telecommunications facilities, provide working capital and for general corporate purposes. The *Petition* asserts that the revolving Credit Facility will continue to be collateralized by the assets, stock, and interest of each of the state level subsidiaries, including TelCove's Tennessee subsidiaries. However, the Petitioners state that none of the debt will appear on the books of the Tennessee companies but will remain only on the parent company's books and all interest expense will be charged to the parent rather than to the subsidiaries.

In addition, the Petitioners seek approval for a sixty-five million dollar senior secured multi-draw second lien and first mortgage term loan facility ("Loan Facility"). According to the *Petition*, this Loan Facility will be made available to Petitioners on behalf of various lenders ("Lenders"), subject to various conditions, for a period of eighteen months after its closing date.

According to the *Petition*, upon the closing date, the Lenders will make an initial loan to the Petitioners in an amount of not less than forty million dollars and not more than fifty million dollars. Additional loans will be made available to the Petitioners over the term of the Loan Facility in an aggregate amount not to exceed the difference between sixty-five million dollars and the amount of the initial loan. Accordingly, the maximum aggregate loan amount made available to the Petitioners through the Loan Facility may not exceed sixty-five million dollars.

To secure the Loan Facility, TelCove and its operating subsidiaries, including TelCove Operations and TelCove of Nashville, must grant the Lenders a second-priority perfected security interests in all of their respective tangible and intangible property and assets. The Lenders' security interests will be second only to the security interests granted in connection with the Petitioners' existing 60 million dollar Credit Facility. According to the *Petition*, as additional security, TelCove and its subsidiaries must also grant the Lenders first-priority perfected liens and mortgages on certain real property (none of which is located in Tennessee)

The Petitioners state that the proceeds from the initial loan under the Loan Facility will be used for capital expenditures, acquisitions and for other general corporate purposes. Proceeds from subsequent loans, however, will be available to the Petitioners only for certain acquisitions approved by the Lenders

According to the *Petition*, the proposed financing transactions are in the public interest because they will enable Petitioners to obtain additional financing and working capital critical for the operating entities, including those in Tennessee, to continue offering competitive services. The Petitioners state that the capital will benefit Petitioners and ultimately consumers by allowing broader consumer choice, more efficient utilization of existing and acquired telecommunications resources and facilities, and product and service innovations.

Statutory Framework

Tenn. Code Ann. § 65-4-109 (2004) states that:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the [TRA] for such proposed issue. It shall be the duty of the [TRA] after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the [TRA].

The June 27, 2005 Authority Conference

At the June 27, 2005 Authority Conference, the voting Panel voted unanimously to approve the financing transaction upon finding

1. The proposed transaction is subject to approval pursuant to Tenn Code Ann § 65-4-109 (2004);

2 The proposed transaction will effect the assets of Telcove's Tennessee subsidiaries,

3. Petitioners have not alleged that approval of this transaction is required by any federal agency;

4 Tennessee has a legitimate interest in monitoring the integrity of the competitive marketplace, which includes obtaining information on the financial transactions and fitness of certificated telecommunications carriers,

5 The burden of compliance with Tenn Code Ann § 65-4-109 (2004) is minimal, as such compliance should be perfunctory given the telecommunications industry's movement to a competitive environment;

6. The transaction is being made in accordance with the laws enforceable by the TRA; and

7. The purpose of the transaction is in the public interest because, based on the assertions of the Petitioners, the transactions will strengthen Petitioners' financial standing to enable them to better serve the citizens of Tennessee

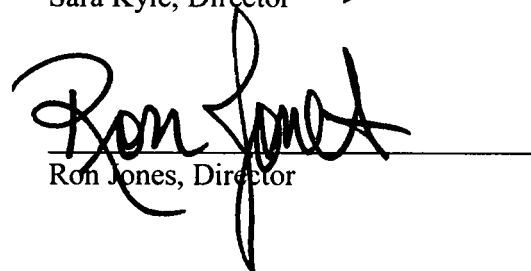
IT IS THEREFORE ORDERED THAT:

1 TelCove, Inc., TelCove Operations, Inc., TelCove of Tennessee, Inc., and TelCove of Nashville, L P. are authorized to enter into the financing transactions as described in the *Petition for Approval to Increase the Amount of an Existing Secured Revolving Credit Facility and to Issue New Debt* and discussed herein.

2. The authorization given hereby should not be used by any party, including, but not limited to, any lending party, for the purpose of inferring that an analysis or assessment of the risk involved to a purchaser has been performed. Nothing contained herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee, or any political subdivision thereof for the transaction approved herein


Deborah Taylor Tate, Director


Sara Kyle, Director


Ron Jones, Director